

PUBLIC DISCLOSURE

December 1, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Chasewood Bank
Certificate Number: 24272**

**20333 State Highway 249
P. O. Box 90888
Houston, Texas 77290-0888**

FEDERAL DEPOSIT INSURANCE CORPORATION

**Dallas Regional Office
Division of Compliance and Consumer Affairs
1910 Pacific Avenue, Suite 2000
Dallas, Texas 75201**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

TABLE OF CONTENTS

I.	General Information	1
II.	Institution Rating	1
III.	Description of Institution	2
IV.	Description of Assessment Area	3
V.	Conclusions	5
VI.	Glossary	11

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Chasewood Bank** prepared by the Federal Deposit Insurance Corporation, the institution's supervisory agency, as of **December 1, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The Chasewood Bank is located in a suburban area, approximately 25 miles northwest of the central business district of Houston, Texas. Total assets reported on September 30, 1997 are \$44,139,000. Bank records indicate 76 percent of the loans originated since the previous CRA evaluation are commercial loans, with 65 percent of those loans extended to home builders and developers. The bank designated its assessment area as sixteen contiguous census tracts. The 1990 United States Census Bureau defines the assessment area as three middle-income and thirteen upper-income census tracts.

An overall satisfactory rating is assigned after considering four performance factors: lending in the assessment area, lending to borrowers of different incomes and businesses of different sizes, geographic distribution of loans, and loan-to-deposit ratio. A majority of loans are extended within the assessment area, and loans made to individuals of various income levels are comparable to the income demographics of the community. Credit is extended to businesses of different sizes. The geographic distribution compares reasonably to the proportion of the population residing in the assessment area. While the average loan-to-deposit ratio is low compared to ratios of area banks, overall lending is acceptable within the context of the bank's lending focus.

DESCRIPTION OF INSTITUTION

The Chasewood Bank, a commercial bank, has operated from one location in Harris County, Houston, Texas, since February 1983. The banking office is located in a suburban area, approximately 25 miles northwest of Houston's central business district on State Highway 249. Lobby operations and drive-through services are offered six days a week at convenient hours. Three automated teller machines (ATMs) offer 24 hour service at locations close to the bank.

The September 30, 1997, *Consolidated Report of Condition and Income* reports total assets as \$44,139,000. The report shows loans and securities comprise 30 percent and 40 percent of total assets, respectively. The ratio of net loans to deposits is 32 percent. Based on dollar amount, loans originated for commercial purposes comprise a majority of the loan portfolio, with the largest percentage extended to residential construction and land development companies. Although the institution's primary business focus is commercial lending, bank records indicate the largest number of loans extended since the previous CRA evaluation are loans to individuals for consumer purposes. The following table, based on bank records, presents the mix of loans originated since the previous performance evaluation on December 16, 1994.

Loan Portfolio Mix		
Loan Category	Dollar Volume	Number Volume
Commercial Loans	76.08%	27.09%
Consumer Loans	12.96%	61.45%
Residential Real Estate Loans	10.80%	10.79%
All Other Loans	.16%	.67%

Bank records reveal 65 percent of the commercial loans originated since the previous evaluation were extended to commercial entities to develop and construct residential developments. Historically, these loans mature within a short duration as the homes are constructed and sold to individuals. Subsequently, new loans are originated as the builders develop new areas and construct more homes. This rapid turnover in loans accounts for the high commercial dollar volume of the loan portfolio mix. Since December 1994, the bank reports \$13,564,000 has been extended for construction and land development.

On September 30, 1997, total deposits were \$41,039,000. The institution offers an array of deposit services, including demand deposits, NOW, MMDA, savings, and time accounts. Additionally, depositors have access to cards for ATM and point-of-sale (POS) transactions.

Total equity capital was \$2,646,000 on September 30, 1997. Although the institution's capital level exceeds minimum regulatory requirements at 5.99 percent of total assets, historically, asset growth has exceeded earnings retention resulting in a decline in capital.

DESCRIPTION OF ASSESSMENT AREA

The Chasewood Bank has defined its assessment area as sixteen contiguous census tracts located within the Houston city limits and the Houston Metropolitan Statistical Area (MSA). The assessment area includes three middle-income and thirteen upper-income census tracts¹. The designated area does not arbitrarily exclude any low- or moderate-income census tracts and encompasses the banking office. The table below sets forth demographic information for the assessment area derived from 1990 United States Census Bureau statistics.

ASSESSMENT AREA STATISTICS	
Population	108,109
Households	36,864
Households: % Owner Occupied	68%
Housing Stock: Median Value	\$100,947
Housing Stock: Median Age	14 years
Families	30,238
Low-Income Families	2,098
Moderate-Income Families	2,605
Middle-Income Families	5,273
Upper-Income Families	20,262
Unemployment Rate	3.7%

¹ Census tracts are designated as low-, moderate-, middle-, or upper income. Median family incomes (MFI) for the Houston MSA are used to determine income classification for census tracts. *Low-income* areas have a MFI of less than 50 percent of the respective MSA figure. Likewise, the *moderate-income* areas have a MFI of 50 percent to less than 80 percent, *middle-income* areas have a MFI of 80 percent to less than 120 percent, and *upper-income* areas have a MFI of 120 percent or more of the MSA figure.

The 1990 Census median family income (MFI) for the Houston MSA is \$36,886. The 1997 Department of Housing and Urban Development (HUD) estimated median family income for the Houston MSA is \$49,100. Based on 1990 statistics, low-income, moderate-income, and middle-income families comprise 7 percent, 9 percent, and 17 percent of assessment area families, respectively. Upper-income families comprise the remaining 67 percent. There are no low- or moderate-income census tracts within the bank's defined service area. Ninety-one percent of the population resides within census tracts designated as upper-income, while the remaining nine percent live in middle-income census tracts.

The City of Houston's economy has historically relied on energy related industries. In recent years, the city has focused on diversifying the economic base. Job diversification and retooling of the oil and gas industry shifted much of the population from Houston's inner city neighborhoods to new, large planned suburban developments. The primary service area for The Chasewood Bank is in a newer, affluent suburban community. Demographic statistics from the 1990 Census place the median value of housing in the assessment area at \$100,947, compared to the Houston MSA median value at \$63,376. The median age of housing is 14 years compared to 21 years for the entire Houston MSA.

Contacts with community members revealed the economy and the population of the area surrounding the bank continues to grow and prosper. Compaq Computers headquarters are located within the same industrial and office complex as The Chasewood Bank. The industry is one of the largest employers and typifies the area's demographics with its upper- and middle-income salaries. While no centralized business district unifies the community, strip shopping centers with some major chain stores have recently been constructed along State Highway 249. A number of small retail businesses are located in these new strip centers, as well as in the Willowbrook Mall just south of the assessment area on F.M. 1960. The increase in local jobs has encouraged growth in support and service businesses, further diversifying the job market, with less dependency on oil and gas industries. Good highways provide access to Houston's central business district and make the area appealing to those who commute there to work. Home values and owner occupancy are high. The interviewees indicated they did not know of any unmet credit needs since there is intense competition among local financial institutions for all credit and deposit services. They mentioned five branches of large, interstate financial institutions and several credit unions located within the area competing for banking customers.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Sampling Information

Examiners selected the institution's two major loan products to analyze lending performance in the assessment area. The primary business focus is commercial loans, which by dollar volume comprise 76 percent of the loans extended since the previous evaluation. However, loans to individuals for consumer purposes comprise 61 percent of the number of loans. Bank records indicate 123 commercial loans, totaling \$20,852,000, and 279 consumer loans, totaling \$3,552,000, were originated. Examiners relied on samples of 63 commercial and 75 consumer loans to conduct analyses ascertaining the bank's performance in lending within the assessment area and to borrowers of differing incomes. Additionally, the geographic distribution of loans throughout the assessment area was determined.

LENDING IN THE ASSESSMENT AREA

An analysis of the institution's lending performance within the assessment area was performed using the samples previously described. The table below illustrates the results of the analysis.

Lending in the Assessment Area						
Loan Type	Number of Loans in Sample	Loans Inside the Assessment Area (AA)	Percent of Loans Inside the AA	Dollar Volume of Loans in Sample *	Dollar Volume of Loans Inside AA*	Percent of Loans Inside the AA
Commercial	63	33	52%	\$13,340	\$8,042	60%
Consumer	75	43	57%	\$ 1,044	\$ 606	58%

* (000 omitted)

As depicted above, a majority of the commercial and consumer loans sampled were extended to borrowers within the assessment area. Lending performance in the assessment area is considered reasonable.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

Analyses of the distribution of commercial loans by gross annual revenues and consumer loans by borrower income were conducted using the sampled loans extended within the assessment area. Analyses by loan size for commercial and consumer loans were also performed.

Commercial Lending Analyses

The institution's major business focus is commercial lending. Original loan balance and gross annual revenue data was collected and analyzed using the loan sample previously described. As illustrated in the following table, 42 percent of the loans sampled were extended to businesses with gross annual revenues of \$1 million or less, and 100 percent were originated with balances of less than \$1 million. In these analyses, only the 33 commercial loans extended within the assessment area are included in the loan sample reviewed.

Distribution of Commercial Loans		
Gross Annual Revenue of Business / Original Loan Balance	Number of Loans Originated	Percent of Loan Sample
Less than \$50,000		
Gross Annual Revenue	0	0%
Original Loan Balance	7	21%
\$50,000 to \$99,999		
Gross Annual Revenue	2	6%
Original Loan Balance	0	0%
\$100,000 to \$249,999		
Gross Annual Revenue	8	24%
Original Loan Balance	13	40%
\$250,000 to \$499,999		
Gross Annual Revenue	1	3%
Original Loan Balance	10	30%
\$500,000 to \$1,000,000		
Gross Annual Revenue	3	9%
Original Loan Balance	3	9%
Greater than \$1,000,000		
Gross Annual Revenue	19	58%
Original Loan Balance	0	0%
Total Loans in the Sample	33	100%

Although the majority of lending is to commercial entities with annual revenues of greater than \$1 million, bank records indicate 65 percent of the commercial loans originated since the previous evaluation were extended to commercial builders to develop housing areas and construct residential homes. The developments are comprised of expensive homes in an affluent area. These factors are consistent with housing and income demographics and current population growth of the assessment area. The sale of several expensive homes per year will reflect high income from sales when only gross revenues are considered. Given these considerations, the bank's performance in lending to businesses of different sizes is considered adequate.

Consumer Lending Analyses

Analyses of the bank's performance in lending to individuals for consumer purposes were conducted using the samples described above. The Houston MSA 1997 HUD estimated median family income of \$49,100 was used to determine borrower income classifications. Lending to borrowers of different income classifications was compared to the income levels of the families residing in the assessment area. As noted in the following table, 28 percent of consumer loans were made to individuals that are categorized as low- and moderate-income borrowers, compared to 16 percent of assessment area families that have gross annual incomes within these levels.

The distribution of the number of consumer loans in banks is typically weighted to lower income borrowers. Consumer loans are often more in demand by low- and moderate-income borrowers due to their smaller loan size. Additionally, middle- and upper-income borrowers generally have access to more sources of funding for these types of credit.

The distribution of lending by original loan amounts was also scrutinized. A smaller loan amount implies the bank may be lending to individuals of lower incomes, since those borrowers generally require or can only qualify for smaller size loans. The following table depicts 63 percent of the consumer loans sampled originated at amounts less than \$25,000.

Consumer Lending Patterns								
Borrowers' Income Levels *	Number of Loans Distributed by Income		Percent of Population in Assessment Area	Original Loan Balances	Number and Dollar Volume of Loans Distributed by Original Loan Amount (000s omitted)			
	#	%	%		#	%	\$	%
Low-Income	6	14%	7%	\$0 to \$4,999	6	14%	\$ 13	2%
Moderate-Income	6	14%	9%	\$5,000 to \$9,999	10	23%	\$ 69	11%
Middle-Income	11	26%	17%	\$10,000 to \$24,999	21	49%	\$303	50%
Upper-Income	20	46%	67%	Greater than \$25,000	6	14%	\$221	37%
Total Loans Sampled	43	100%	100%	Total Loans Sampled	43	100%	\$606	100%

* Income categories represent Low-, Moderate-, Middle-, and Upper-income as defined on page 3.

Compared to the demographics of the community, the distribution of consumer lending to borrowers of different income levels reflects a reasonable penetration among different income levels. The analyses also reveal the bank's willingness to extend loans in various dollar amounts.

GEOGRAPHIC DISTRIBUTION OF LOANS

The sampled loans extended in the assessment area were reviewed for their geographic distribution within the area. Of the sixteen census tracts that comprise the assessment area, three are designated middle-income and the remaining thirteen are upper-income areas. Approximately 91 percent of the assessment area population resides in the upper-income census tracts. The following table presents the geographic dispersion analysis based on the sampled loans.

Geographic Dispersion of Loans						
Census Tract Designation	Census Tract Class Percentage	Census Tract Population Percentage	Number of Commercial Loans	Percent of Commercial Loans	Number of Consumer Loans	Percent of Consumer Loans
Low-Income	0%	0%	0	0%	0	0%
Moderate-Income	0%	0%	0	0%	0	0%
Middle-Income	19%	9%	3	9%	6	14%
Upper-Income	81%	91%	30	91%	37	86%
Totals	100%	100%	33	100%	43	100%

The distribution of loans extended closely matches the percentage of population residing in the census tracts and is considered reasonable. The analysis reveals the loan sample contained consumer loans that were extended in each of the sixteen census tracts and commercial loans were in nine of the sixteen.

LOAN-TO-DEPOSIT RATIO

Using data from the *Consolidated Reports of Condition and Income* for the twelve quarters since the previous CRA evaluation, The Chasewood Bank's average loan-to-deposit ratio is 35 percent. The net loans to total deposits ratio was 31.8 percent on September 30, 1997. The ratio is notably lower than the statewide average of 51.79 percent, calculated on that date for institutions with total assets less than \$50 million. When measured against other area banks, The Chasewood Bank performed at a lower level. The following table compares the bank's performance to similar banks in the Houston area.

Analysis of Comparable Banks as of September 30, 1997				
Bank Name	Total Assets *	Net Loans*	Total Deposits*	Loan to Deposit Ratio
The Chasewood Bank Houston	\$44,139	\$13,050	\$41,039	31.80%
The State Bank of Texas Houston	\$53,043	\$25,990	\$48,303	53.81%
Bank of Tanglewood, NA Houston	\$46,365	\$14,569	\$39,737	36.66%
Humble National Bank Humble	\$48,892	\$26,064	\$44,754	58.24%

* 000 omitted.

Although The Chasewood Bank's loan-to-deposit ratio is lower than the ratios of local institutions, several mitigating factors impact the bank's ratio. The short term nature of the bank's primary lending products, real estate development and construction loans, impacts the ratio. The bank averaged nearly \$2 million each quarter in unfunded loan commitments. These commitments are not included in the ratio's calculation although they represent pledges to fund loans. Also, due to previous loan and loan administration problems, the bank has been in a less aggressive lending phase for several years.

When considering the impact of these mitigating factors, The Chasewood Bank's overall lending is considered acceptable.

RESPONSE TO COMPLAINTS

There have been no CRA related complaints since the previous CRA evaluation.

FAIR LENDING

Examiners reviewed information with respect to interest rates, fees, amortization schedules, loan-to-value ratios, debt-to-income ratios, and credit information requirements on mortgage secured loan applications. Examiners found no evidence that management has engaged in any unlawful or discriminatory acts.

GLOSSARY

CENSUS TRACT - a small locally demarcated area, usually in a metropolitan neighborhood, defined by the Census Bureau to generally consist of stable boundaries and an average population of 4,000.

LOW-INCOME -

- for a census tract - this refers to income levels less than 50% of the MFI for the MSA in which the tract is located.
- for individuals - this refers to income levels less than 50% of the most recent year's estimation of the MFI by the Department of Housing and Urban Development (HUD).

MFI - median family income as determined by the Census Bureau or HUD.

MIDDLE-INCOME - determined using the same methodology as for low-income. The percentage used for middle-income designation is 80% - 119%.

MODERATE-INCOME - determined using the same methodology as for low-income. The percentage used for moderate-income designation is 50%-79%.

MSA - metropolitan statistical area as determined by the Census Bureau. Usually consists of contiguous census tracts and block numbering areas comprising one or more counties including a large population nucleus and nearby communities that have a high degree of interaction and which usually have a combined population of greater than 50,000.

UPPER-INCOME - determined using the same methodology as for low-income. The percentage used for upper-income designation is 120% or greater.